COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0650-01
Bill No.: HB 398
Subject: Education, Elementary and Secondary; Revenue Department; Taxation and Revenue.
Type: Original
Date: February 10, 2003

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Total Estimated Net Effect on General Revenue Fund *	**$0**	**$0**	**$0**

*** Note: the fiscal impact of this proposal is beyond the scope of this fiscal note.**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
None			
Total Estimated Net Effect on Other State Funds *	**$0**	**$0**	**$0**

*** Note: the fiscal impact of this proposal is beyond the scope of this fiscal note.**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 5 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
None			
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue (DOR)** state this legislation provides for a tax credit for educational expenses used for dependent children in grades one through twelve to include home schooling expenses and travel expenses to elementary schools. The credit is limited to the lesser of the taxpayer's tax liability or $2,500. DOR assumes that because of the effective date, there is minimal or no cost during fiscal years 2004 through 2006. However, once this credit becomes effective, there will be significant loss to revenue as well as administrative costs.

Because of the current state of the budget, DOR assumes the credit will not take effect until January 1, 2007, only impacting fiscal years 2007 and after. Therefore, FTE will not be requested for FY 2004 - 2006. However, once the credit is in effect, DOR will have administrative impact.

DOR assumes most families with school age children could qualify for a credit. Therefore, a new line would need to be added to all individual income tax forms.

ASSUMPTION (continued)

In order to verify the credit, the taxpayer will required to attach numerous bills to the tax return to support the expenses and the additional line on the return. This will necessitate the need for:

- Three Temporaries for every 30,000 returns;
- One Tax Processing Technicians for every 30,000 errors; and
- One Tax Processing Technicians for every 3,000 pieces of correspondence.

The tax credit would increase contact with the taxpayers resulting in the need for one Tax Collection Tech for every 24,000 calls a year on the tax hotline number and an undetermined need for walk-ins.

Information Technology Section will need to make changes to MINITS, SPEEDUP and TELEFILE systems. The estimated 2,080 hours of programming will cost $69,389.

State Data Center implementation costs will be $9,007 with on-going costs of $451.

Officials from the **Office of Administration - Budget and Planning (BAP)** state this bill would provide a tax credit for educational expenses. This credit would not begin until FY 2008 or sooner unless Total State Revenue (TSR) exceeds the TSR limit by at least 20 percent. BAP's current projections are that TSR will be at least $1 billion below the TSR limit for Fiscal Years 2004 and beyond. Thus, it is unlikely that this bill would have a fiscal impact during Fiscal Years 2004 - 2006. This proposal has no impact on BAP.

Officials from the **Department of Elementary and Secondary Education (DESE)** state the impact resulting from this proposal cannot be estimated due to the broad range of taxpayers eligible to receive this credit; however, the impact would likely be significant. DESE also states that the proposal would impact all tax years beginning on or after January 1, 2007; therefore, the impact is not reflected on the face of the fiscal note.

DESE assumes that more tax credits would result in less funds available to support the foundation formula.

Officials from the **Office of Secretary of State (SOS)** assume there would be costs due to additional publishing duties related to the Department of Revenue's authority to promulgate rules, regulations, and forms. SOS estimates the division could require approximately 4 new pages of regulations in the Code of State Regulations at a cost of $27.00 per page, and 6 new pages in the Missouri Register at a cost of $23.00 per page. Costs due to this proposal are estimated to be $246, ASSUMPTION (continued)

however, the actual fiscal impact would be dependent upon the actual rule-making authority and may be more or less. Financial impact in subsequent fiscal years would depend entirely on the number, length, and frequency of the rules filed, amended, rescinded, or withdrawn. SOS does not anticipate the need for additional staff as a result of this proposal, however, the enactment of more than one similar proposal may, in the aggregate, necessitate additional staff.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

Based upon responses from DOR and BAP, **Oversight** assumes this program will become effective for calendar year 2007, which is beyond the scope of this fiscal note. However, if Total State Revenues increase substantially in the near future, this program could become effective sooner than anticipated. Whenever this program becomes effective, it could result in a significant reduction in Total State Revenues as well as administrative costs for the Department of Revenue.

FISCAL IMPACT - State Government	FY 2004 (10 Mo.)	FY 2005	FY 2006
	$0	**$0**	**$0**

FISCAL IMPACT - Local Government	FY 2004 (10 Mo.)	FY 2005	FY 2006
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

DESCRIPTION

RAS:LR:OD (12/02)

This proposal authorizes an individual income tax credit for certain qualified educational expenses incurred by a taxpayer on behalf of a qualified dependent attending grades 1 through 12 in Missouri.

The amount of the tax credit will be equal to the amount of educational expenses incurred by a taxpayer up to a maximum of $2,500 per dependent per taxable year. The amount of tax credit taken cannot exceed the tax liability of the taxpayer in any one year.

The tax credit will apply to all tax years beginning on or after January 1, 2007, or upon the beginning of any state fiscal year in which total state revenues for the previous fiscal year exceeds 120% of total state revenues for Fiscal Year 2000, whichever occurs first.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration - Budget and Planning
Department of Revenue
Office of the Secretary of State
Department of Elementary and Secondary Education

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